

CMP : Rs.210

Reco : BUY

Target : Rs.261

STOCK INFO

| | |
|---------------------------------|------------------|
| BSE | 533177 |
| NSE | IL&FSTRANS |
| Bloomberg | ILFT IN |
| Reuters | ILFT.BO |
| Sector | Roads & Highways |
| Face Value (Rs) | 10 |
| Equity Capital (Rs mn) | 1,943 |
| Mkt Cap (Rs mn) | 40,796 |
| 52w H/L (Rs) | 256.7/143.1 |
| 3m Avg Daily Volume (BSE + NSE) | 159,894 |

SHAREHOLDING PATTERN

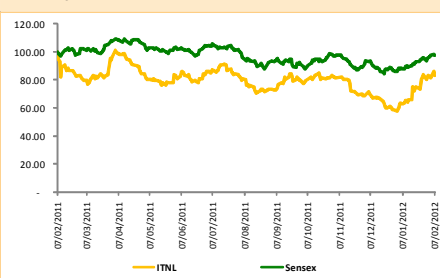
| | % |
|-------------------------------|------|
| <i>(as on 31st Dec. 2011)</i> | |
| Promoters | 71.2 |
| FIIIs | 2.6 |
| DIIIs | 4.3 |
| Public & Others | 22.0 |

Source: BSE

| STOCK PERFORMANCE (%) | 1m | 3m | 12m |
|-----------------------|----|----|-----|
| ITNL | 33 | 2 | -16 |
| SENSEX | 11 | 0 | -2 |

Source: Capitaline, IndiaNivesh Research

ITNL v/s SENSEX



Source: Capitaline, IndiaNivesh Research

Daljeet S. Kohli
Head of Research

Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Y. Santosh
Research Analyst

Mobile: +91 77383 93416
Tel: +91 22 66188840
s.yellapu@indianivesh.in

Consolidated Results Review

- IL&FS Transportation (ITNL) surpassed our top-line expectations for the quarter by 0.8% to Rs 12.6 bn. The top-line numbers for the quarter reflect a strong 73.5% year-over-year and 1.0% sequential growth. We sense increased contribution from the construction segment to have contributed to the sharp year-over-year increase in the top-line.
- Since Q2FY12 results, the company has won 2 major projects. ITNL reported a road rehabilitation project win from Government of Haiti through its Spanish subsidiary, Elsamex worth Rs 2.6 bn. Also, recently ITNL announced the receipt of Letter of Award from NHAI for a BOT project covering 113.3 km stretch between Kiratpur to Ner-Chowk at a total cost of Rs 18.1 bn. We expect this win to have come at 12-13.5% IRRs, after considering the following factors- (1) ITNL having won this project amidst competition, where there were 4 final bidders and 28 pre-qualified bidders, (2) design of this road stretch would be for an average daily traffic (ADR) of 30,000 PCUs against 60,000 PCUs for all other National Highway projects (3) risk to the traffic assumptions by ITNL, considering the seasonality factor (4) Likely margin compression from EPC work for this project, given that execution would be done at higher altitudes. Post these new wins, we expect the total order book of the company at Q3FY12-end to be at ~Rs 100 bn.
- The company continued reporting declining trend in its EBITDA margins. EBITDA margins during Q3FY12 declined from 29.8% in Q3FY11 and 28.4% in Q2FY12 to 25.3%. Decline in quarterly EBITDA margins is primarily attributable to 149.8% year-over-year and 7.5% sequential increase in the Construction contract costs to Rs 7.0 bn. Also, 86.6% year-over-year & 61.2% sequential increase in Other costs (to Rs 1.1 bn) contributed to the decline in margins.
- On Net profitability front, ITNL disappointed by reporting Rs 878.0 mn of net profit, against our expectations of Rs 1,024 mn. The reported net profit reflects 6.9% margins for the quarter against 8.4% of margins seen in Q3FY11 and 9.3% in Q2FY12. A combination of deteriorating operational metrics and higher interest expenses led to such decline in the net profit margins. Stretched working capital cycles, coupled with debt drawn towards the implementation of BOT projects led to a 60.9% year-over-year and 9.5% sequential increase in interest expenses to Rs 1.8 bn. Net margins during the quarter, got some relief on account of lower effective tax rate (at 31.6% vs. 41.8% in Q3FY11 and 33.0% in Q2FY12).

Valuation

At CMP of Rs 210, based on our estimates (on consolidated basis) the stock is trading at FY12E and FY13E, EV/EBITDA multiple of 7.3x and 6.2x, respectively. We continue to maintain our BUY rating on the stock with a target price of Rs 261, reflecting higher consolidated FY13E EV/EBITDA multiple of 7.0x, on back of strong order book of ~Rs 100 bn, strong order bid-pipeline, 3 new BOT projects getting operational in FY13 (i.e. Pune-Sholapur BOT-Toll Road project, part of Jharkhand BOT-Toll Road project, Hazaribagh-Ranchi BOT-Annuity project), operational benefits to be realized from cool-down in raw material prices, lower contracting charges and interest rates peaking out.

Consolidated Financials

| (Rs in mn.) | Q3FY12 | Q2FY12 | Q3FY11 | q-o-q ch. | y-o-y ch. |
|--|----------------|----------------|----------------|-----------|-----------|
| Net Sales | 12,683.8 | 12,554.8 | 7,308.9 | 1.0% | 73.5% |
| Consumption of raw materials | 186.2 | 314.6 | 365.6 | -40.8% | -49.1% |
| Purchase of traded goods | 6.8 | 21.9 | 6.6 | -68.9% | 3.0% |
| Staff cost | 915.6 | 891.0 | 857.5 | 2.8% | 6.8% |
| Construction contract cost | 7,084.6 | 6,591.5 | 2,836.2 | 7.5% | 149.8% |
| Operation & Maintenance | 110.1 | 441.4 | 434.2 | -75.1% | -74.6% |
| Other expenditure | <u>1,174.0</u> | <u>728.2</u> | <u>629.2</u> | 61.2% | 86.6% |
| Total Operating Expenses | 9,477.3 | 8,988.6 | 5,129.3 | 5.4% | 84.8% |
| EBITDA | 3,206.5 | 3,566.2 | 2,179.6 | -10.1% | 47.1% |
| EBITDA Margin (%) | 25.3% | 28.4% | 29.8% | | |
| Other Operating Income | 0.5 | 0.5 | 27.6 | 0.0% | -98.2% |
| Depreciation | 169.2 | 160.2 | 158.1 | 5.6% | 7.0% |
| Other Income | <u>297.4</u> | <u>262.1</u> | <u>173.6</u> | 13.5% | 71.3% |
| Pr. Bef. Int. & Excep. Items | 3,335.2 | 3,668.6 | 2,222.7 | -9.1% | 50.1% |
| Interest and finance charges | <u>1,854.6</u> | <u>1,693.6</u> | <u>1,152.9</u> | 9.5% | 60.9% |
| Pr. after Int. but before Excep. Items | 1,480.6 | 1,975.0 | 1,069.8 | -25.0% | 38.4% |
| Exceptional items | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | | |
| Profit from Ord. activities before tax | 1,480.6 | 1,975.0 | 1,069.8 | -25.0% | 38.4% |
| Tax expense | <u>468.5</u> | <u>651.5</u> | <u>447.7</u> | -28.1% | 4.6% |
| NP from ordinary activities after tax | 1,012.1 | 1,323.5 | 622.1 | -23.5% | 62.7% |
| Extraordinary item | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | | |
| NP bef. Min. Int. & Associates | 1,012.1 | 1,323.5 | 622.1 | -23.5% | 62.7% |
| Share of profit tran. to Min. Int. | (122.9) | (134.3) | 16.2 | | |
| Share of profit/(loss) to associates | <u>(11.2)</u> | <u>(27.0)</u> | <u>(22.0)</u> | | |
| Net profit for the period | 878.0 | 1,162.2 | 616.3 | -24.5% | 42.5% |
| Effective tax rate (%) | 31.6% | 33.0% | 41.8% | | |
| PAT Margins (%) | 6.9% | 9.3% | 8.4% | | |
| EPS- Basic | 4.52 | 5.98 | 3.15 | | |
| EPS- Diluted | 4.52 | 5.98 | 3.15 | | |

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

Disclaimer: This document has been prepared by IndiaNivesh Securities Private Limited (IndiaNivesh), for use by the recipient as information only and is not for circulation or public distribution. This document is not to be reproduced, copied, redistributed or published or made available to others, in whole or in part without prior permission from us. This document is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recipients of this document should be aware that past performance is not necessarily a guide for future performance and price and value of investments can go up or down. The suitability or otherwise of any investments will depend upon the recipients particular circumstances. The information contained in this document has been obtained from sources that are considered as reliable though its accuracy or completeness has not been verified by IndiaNivesh independently and cannot be guaranteed. Neither IndiaNivesh nor any of its affiliates, its directors or its employees accepts any responsibility or whatever nature for the information, statements and opinion given, made available or expressed herein or for any omission or for any liability arising from the use of this document. Opinions expressed are our current opinions as of the date appearing on this material only. **IndiaNivesh directors and its clients may have holdings in the stocks mentioned in the report.**

To unsubscribe please send a mail to mail@indianivesh.in

[Home](#)